We really don’t want to write another piece about the China-US trade dispute...but we have to. And the last thing we want to do is get into Trump’s head, but again we have to. We have to because it’s all about trade. Take trade out of the equation and nobody would be talking about the Fed easing, and the 10 year-rate would be at least 50 bps higher.

Simply put, if you’re in the market, you must have a working assumption regarding the situation. The more we think about it, the more we realize that this trade dispute is going to be with us for a long time. The fog is not going to clear, because Trump doesn’t want it to clear. The uncertainty is not a means to an end, it’s the goal. Rightly or wrongly (and we believe wrongly), the President believes that the fog is, in fact, helpful to corporate America.

As we suggested in previous publications, the Chinese game plan is to stall and buy time until the 2020 elections. Trump’s decision to levy tariffs on the remaining $300 billion of Chinese exports is aimed at preventing them from doing so. As we expected, the Chinese are responding by allowing the yuan to fall to its weakest levels in more than a decade.

Both sides need a win. Trump for obvious reasons. As time passes and the trade dispute drags on, the damage to the US economy is becoming more evident. More and more studies using empirical data debunk Trump’s claim that Chinese companies are bearing the brunt of the tariff payments, showing that in fact, corporate America and, to a lesser extent, consumers have absorbed the bulk of the damage. And that’s before the latest wave of tariffs has even taken effect, which will mostly be felt by the average American.

As for President Xi, sure, he doesn’t have to face voters, but one should not underestimate the pressure he faces within the Communist party’s elite to save face.

So, what is the endgame? What is a victory here? It’s not about soybeans. It’s slowing China’s technological advance, full access to the Chinese market, and a protection of intellectual property. More specifically, the Administration would like a situation in which US companies aren’t required to transfer their secrets in order to operate in China, as well as a more equitable tariff structure, and the ability, without government interference, to expand.

Now, it’s not totally unreasonable to assume that Chinese authorities will agree to prohibit officials from demanding technological transfers as part of the licensing agreement and joint venture. They can, because, in reality, the pressure on US companies to share information comes from behind the scenes and will not be affected by legal requirements. Furthermore, the likelihood that the Chinese will allow the US to verify compliance is basically zero. So even if there is an official agreement, in reality, very little will change.

That’s why we believe we will have to live with the fog of a trade war for a while. Trump is comfortable in that environment, and even if we get an agreement, it will be full of holes, therefore shortening the duration of any relief rally.
### CANADA

**Monday August 12**

Auction: 3-M Bills $42B, 6-M Bills $42B

**Tuesday August 13**

Cash Management Buyback (Sep’19 - Feb’21) - $0.5B

Auction: 1-Yr Treasuries $28B

**Wednesday August 14**

8:30 AM

CPI M/M (Jul) (H)
0.3% 0.3% 0.1%

CPI M/M (core) (Jul) (H)
0.2% 0.2% 0.3%

CPI Y/Y (Jul) (H)
1.8% 1.7% 1.6%

CPI Y/Y (core) (Jul) (H)
2.1% 2.1% 2.1%

7:00 AM

MBA-Applications (Aug 9) (L)
5.3%

8:30 AM

Import Price Index M/M (Jul) (L)
0.0% -0.9%

Export Price Index M/M (Jul) (L)
0.0% -0.7%

**Thursday August 15**

8:30 AM

ADP Employment Change

9:00 AM

Existing Home Sales M/M (Jul) (M)
-0.2%

8:30 AM

Initial Claims (Aug 10) (M)
212K 209K

Continuing Claims (Aug 3) (L)
1688K 1684K

Retail Sales M/M (Jul) (H)
0.1% 0.3% 0.4%

Retail Sales (X-Autos) M/M (Jul) (H)
0.3% 0.4% 0.4%

Retail Sales Control Group M/M (Jul) (H)
0.3% 0.4% 0.7%

New York Fed (Empire) (Aug) (M)
1.2 4.3

Philadelphia Fed (Aug) (M)
10.0 21.8

9:15 AM

Industrial Production M/M (Jul) (H)
0.1% 0.2% 0.0%

Capacity Utilization (Jul) (M)
78.0% 77.9% 77.9%

10:00 AM

NAHB Housing Index (Aug) (L)
66 65

Business Inventories M/M (Jun) (L)
0.1% 0.3%

4:00 PM

Net Capital Inflows (TICS) (Jun) (L)
$3.5B

**Friday August 16**

8:30 AM

Intl. Sec. Transactions (Jun) (M)
$10.2B

8:30 AM

Housing Starts Saar (Jul) (M)
1240K 1259K 1253K

Building Permits Saar (Jul) (H)
1245K 1270K 1232K

10:00 AM

Michigan Consumer Sentiment (Aug) (H)
97.2 98.4

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**Note:** Bloomberg

**H, M, L = High, Medium or Low Significance**

**SAAR = Seasonally Adjusted Annual Rate**

**Consensus Source:** Bloomberg
Week Ahead’s Market Call

by Andrew Grantham

In the US, we’re expecting some minor downside surprises in the data flow this week, with forecasts for retail sales, industrial production and housing starts all slightly below the consensus view. However, a tamer core retail sales print should be of little concern after a string of impressive gains recently, and itself wouldn’t change our view that the Fed will only need to cut rates once more. Earlier in the week, core CPI is expected to hold onto the slight acceleration seen last month, but not make any further headway above 2%. News on the trade front will of course be a primary driver of market sentiment.

In Canada, there’s a summer holiday for both statisticians and Bank of Canada officials, with little domestic data on tap. As such, the C$ and Canadian yields will take direction from international developments and broader market sentiment.
There are no key Canadian numbers this week.
**Week Ahead’s Key US Number:**

**Retail Sales—July**
(Thursday, 8:30 a.m.)

Katherine Judge (416) 956-6527

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Consumer spending rebounded in Q2 after a soft start to the year, with the pickup in goods purchases driven largely by an uptick in spending on durable goods. Those interest-rate-sensitive segments of consumption could be somewhat supported by lower interest rates, however, the drop seen in auto unit sales in July will weigh on headline retail sales. Along with a drop in building material purchases, which have been running above the pace of existing home sales, headline retailing likely advanced by a meagre 0.1% in July, with higher gas prices and sales in the control group supporting the advance.

Disposable income growth has been running above retail sales, and along with lower interest rates, suggests the control group of retail sales could see another decent gain, even after recent strength.

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**Other U.S. Releases:**

**CPI — July**
(Tuesday, 8:30 am)

The strong 0.3% advance in core CPI in June aligned with more stable indicators of inflation that had been running hotter than CPI, but a repeat performance isn’t likely in the cards for July. A trend-like 0.2% rise in core prices will leave core CPI inflation at 2.1%, and implies that the Fed’s preferred inflation metric, core PCE prices, will remain well below target at 1.6%. Headline CPI inflation should have risen two ticks to 1.8%, supported by higher prices at the pump.

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**Industrial Production — July**
(Thursday, 9:15 am)

Temperatures were hotter than normal in July, which should have seen a jump in utilities production. But a fall in commodity prices along with a rise in trade tensions could have limited mining production, in line with the drop in rig counts and hours worked for that sector. Manufacturing activity growth appears poised to decelerate, and maybe even stall, as the level of auto production appears high and aggregate hours worked for production employees showed up as flat. Indeed, manufacturing inventories are elevated relative to sales, a negative indicator of where production is headed. Overall, industrial production appears to have inched forward by 0.1% in July, sending capacity utilization up to 78.0%.
**Tariffs Unlikely to Materially Impact Consumers... Yet**

As Trump continues to levy tariffs on Chinese goods, markets fret over the impact that subsequent inflation will have on consumption. Although the recent round of tariffs – 10% on $295 bn worth of Chinese imports – does include a considerable amount of consumer goods, the lower tariff rate of 10% amounts to a similar maximum cost to consumers as the previous round (25% tariffs on $48 bn worth of consumer goods). Therefore, it likely won’t have a sizeable impact on inflation or consumption. But, if President Trump takes the next step in raising tariffs to 25%, it would be a different story.

**Canadian Energy Stocks Less Sensitive to Oil Downside**

Canadian oil producers have faced challenges stemming from slower global growth and pipeline issues in Alberta’s oil patch. And although government mandated production cuts worked to put a floor under the price of WCS temporarily, it is now back within reach of where it stood when those cuts were first announced. However, energy stocks on the TSX appear to be less sensitive to the fall in prices since their April peak, in comparison to the 2014-16 drop in the price of oil. In contrast, US energy stocks appear to be more sensitive to the fall in WTI this time around.

**Caution: US Business Pessimism Spreading**

Growth in business investment in the US dipped into negative territory for the first time since early 2016 in Q2, and only the fourth time since late 2012. The difference now relative to those prior instances of weakness is, however, the dispersion of deterioration across sectors. Prior instances reflected softness in structures investment due largely to energy sector woes, while other structures saw moderate growth on average. However, the Q2 data showed broad-based weakness in investment, suggesting that businesses are becoming more cautious across the board.
Currency Currents
Andrew Grantham

CAD: Commodity Currency King…For Now
Even after this week's turbulence, the C$ is still by far the best performing commodity currency year-to-date and recently hit a multi-decade high against the NOK. That currency outperformance has come despite an (admittedly minor) underperformance of Canada’s trade-weighted commodity index. However, this could change if and when the Bank of Canada follows the global trend of reducing interest rates, and we recently brought forward our expectation of a BoC rate cut to Q1 2020. So while the loonie could rally in the near-term if the Bank doesn’t cut quite as early as markets now think, the C$ could weaken more meaningfully next year when that move finally happens, with USDCAD reaching 1.38 by end-2020.

China: Manipulator by Name, Not Nature
The US came out this week and labelled China a currency manipulator, but that claim will fall on deaf ears at the IMF. Unlike in the mid-1990’s (the last time this label was used), China has recently been using FX reserves to fight against CNY depreciation, only allowing market forces to take over and the currency to weaken after US tariffs were announced. Moreover, in its latest annual study on global imbalances released less than a month ago, the IMF stated for the first time that China’s current account deficit was “broadly in line” with where staff models suggest it should be. Without added international pressure to strengthen the currency, USDCNY is likely to remain around or just above the 7.00 threshold until trade tensions cool. As discussed in the cover of this publication, that may not happen quickly.

US: Pain But Little Gain
US manufacturers are struggling amid trade wars and the strong US$, with shipments to export markets weakening much more than those to domestic purchasers recently. However, there’s only limited evidence that the tariffs and currency strength are seeing a rotation among US buyers to domestic sellers rather than imports. As such, the US economy is seeing the negatives of trade uncertainty and currency strength without many positives at this stage. That’s one reason we see limited further upside for the broad US$ index, and for the greenback to weaken against many majors in 2020.
## CANADIAN RELEASE AND EVENT DATES
### August/September 2019

<table>
<thead>
<tr>
<th>MONDAY</th>
<th>TUESDAY</th>
<th>WEDNESDAY</th>
<th>THURSDAY</th>
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<td>5</td>
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<tr>
<td><strong>CIVIC HOLIDAY</strong> (Markets Closed)</td>
<td><strong>IVER PURCHASING MANAGERS’ INDEX</strong> 10:00 AM</td>
<td><strong>NEW HOUSING PRICE INDEX</strong> 8:30 AM</td>
<td><strong>LABOUR FORCE SURVEY</strong> 8:30 AM</td>
<td><strong>LABOUR FORCE SURVEY</strong> 8:30 AM</td>
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<td><strong>ADP EMPLOYMENT SURVEY</strong> 8:30 AM</td>
<td><strong>INTERNATIONAL TRANSACTIONS IN SECURITIES $B, NET</strong> 8:30 AM</td>
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<td>19</td>
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<tr>
<td><strong>SURVEY OF MANUFACTURING</strong> 8:30 AM</td>
<td><strong>CPI</strong> 8:30 AM</td>
<td><strong>WHOLESALE TRADE</strong> 8:30 AM</td>
<td><strong>RETAIL TRADE</strong> (Currents) 8:30 AM</td>
<td><strong>QUARTERLY FINANCIAL STATISTICS</strong> 8:30 AM</td>
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<td>APR -0.4 3.5</td>
<td>MAY 1.6 3.0</td>
<td>JUN -0.2 2.0</td>
<td>JUN 0.2 3.8</td>
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<td><strong>BALANCE OF INTERNATIONAL PAYMENTS</strong> 8:30 AM</td>
<td><strong>NATIONAL ACCOUNTS PRICE INDEX</strong> 8:30 AM</td>
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<td><strong>LABOUR DAY (HOLIDAY) (Markets Closed)</strong></td>
<td><strong>MERCHANDISE TRADE</strong> 8:30 AM</td>
<td><strong>PAYROLL EMPLOYMENT, EARNINGS &amp; HOURS</strong> 8:30 AM</td>
<td><strong>LABOUR FORCE SURVEY</strong> 8:30 AM</td>
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<td>8:30 AM AVG EMPLOY UNEMP HRLY (HSHOLD) RATE EARN M Y % Y</td>
<td>8:30 AM CURR. ACCT. BAL. $B (QR) $B (AR)</td>
<td>8:30 AM M Y</td>
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<td>MAY 0.1 2.4 5.4 2.6</td>
<td>JUN 0.1 2.3 0.0 3.6</td>
<td>JUN -0.1 1.9 5.7 4.5</td>
<td>JUN 0.1 2.3 0.0 3.6</td>
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<td>JUL -0.1 1.9 5.7 4.5</td>
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## U.S. Release and Event Dates
### August/September 2019

<table>
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<tr>
<th>Monday</th>
<th>Tuesday</th>
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<tr>
<td><strong>ISM NON-MFG SURVEY</strong>&lt;br&gt;10:00 AM</td>
<td><strong>CONSUMER CREDIT</strong>&lt;br&gt;3:00 PM&lt;br&gt;<strong>10-YR NOTE AUCTION</strong>&lt;br&gt;BOT (9:00) REDBOOK (8:55)</td>
<td><strong>WHOLESALE TRADE</strong>&lt;br&gt;10:00 AM&lt;br&gt;<strong>30-YR BOND AUCTION</strong>&lt;br&gt;INITIAL JOBLESS CLAIMS (8:30)</td>
<td><strong>PPI</strong>&lt;br&gt;<strong>HOUSING STARTS</strong>&lt;br&gt;8:30 AM&lt;br&gt;<strong>MICHIGAN SENTIMENT (P)</strong>&lt;br&gt;10:00 AM</td>
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<td>2019</td>
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<td><strong>CPI</strong>&lt;br&gt;8:30 AM&lt;br&gt;M (SA) Y (NSA)&lt;br&gt;MAY 0.1 1.8&lt;br&gt;JUN 0.1 1.6&lt;br&gt;JUL</td>
<td><strong>LEADING INDICATOR</strong>&lt;br&gt;10:00 AM&lt;br&gt;<strong>NEW HOME SALES</strong>&lt;br&gt;10:00 AM</td>
<td><strong>GDP</strong>&lt;br&gt;8:30 AM (AR) REAL IMPLICIT GDP DEFlator&lt;br&gt;19:Q1 (3rd Est) 3.1&lt;br&gt;19:Q2 (2nd Est) 2.4</td>
<td><strong>PERS. INC. &amp; OUT. SAVING</strong>&lt;br&gt;8:30 AM&lt;br&gt;<strong>CHICAGO PMI</strong>&lt;br&gt;9:45 AM&lt;br&gt;<strong>MICHIGAN SENTIMENT (F)</strong>&lt;br&gt;10:00 AM</td>
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<td><strong>TREASURY BUDGET</strong>&lt;br&gt;2:00 PM</td>
<td><strong>EXISTING HOME SALES</strong>&lt;br&gt;10:00 AM&lt;br&gt;<strong>FOMC Minutes</strong></td>
<td><strong>7-YR NOTE AUCTION</strong>&lt;br&gt;BOT (9:00) REDBOOK (8:55)</td>
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<td><strong>DURABLE GOODS ORDERS</strong>&lt;br&gt;8:30 AM&lt;br&gt;M Y&lt;br&gt;MAY -2.3 -3.7&lt;br&gt;JUN 2.0 -1.6&lt;br&gt;JUL</td>
<td><strong>SALES</strong>&lt;br&gt;10:00 AM&lt;br&gt;<strong>GOODS &amp; SERVICES BALANCE (BOP)</strong>&lt;br&gt;8:30 AM&lt;br&gt;<strong>GDP</strong>&lt;br&gt;8:30 AM&lt;br&gt;<strong>FACTORY ORDERS</strong>&lt;br&gt;10:00 AM&lt;br&gt;<strong>ADV. TRADE IN INTERNATIONAL GOODS</strong>&lt;br&gt;8:30 AM&lt;br&gt;<strong>LEAD. FACTORY ORDERS</strong>&lt;br&gt;10:00 AM&lt;br&gt;<strong>NET CAPITAL INFLOWS TICS</strong>&lt;br&gt;4:00 PM&lt;br&gt;<strong>CORPORATE PROFITS</strong>&lt;br&gt;8:30 AM&lt;br&gt;<strong>7-YR NOTE AUCTION</strong>&lt;br&gt;BOT (9:00) REDBOOK (8:55)</td>
<td><strong>EMPLOY. SITUATION</strong>&lt;br&gt;8:30 AM&lt;br&gt;<strong>NON-FARM PRODUCTIVITY</strong>&lt;br&gt;8:30 AM (AR) Q/Q (AR) Y/Y&lt;br&gt;18:Q4 (A) 1.7&lt;br&gt;19:Q1 (A) 3.4&lt;br&gt;19:Q2 (F)</td>
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<td><strong>S&amp;P/CASE-SHILLER HOUSE PRICE INDEX</strong>&lt;br&gt;9:00 AM</td>
<td><strong>2-YR NOTE AUCTION</strong>&lt;br&gt;BOT (9:00) REDBOOK (8:55)</td>
<td><strong>7-YR NOTE AUCTION</strong>&lt;br&gt;BOT (9:00) REDBOOK (8:55)</td>
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<td><strong>CONSUMER CONFIDENCE</strong>&lt;br&gt;10:00 AM</td>
<td><strong>CAPABILITY UTIL/IND. PROD.</strong>&lt;br&gt;9:15 AM&lt;br&gt;<strong>CAPABILITY UTIL/IND. PROD.</strong>&lt;br&gt;9:15 AM&lt;br&gt;<strong>LEAD. FACTORY ORDERS</strong>&lt;br&gt;10:00 AM&lt;br&gt;<strong>FACTORY ORDERS</strong>&lt;br&gt;10:00 AM&lt;br&gt;<strong>NET CAPITAL INFLOWS TICS</strong>&lt;br&gt;4:00 PM&lt;br&gt;<strong>CORPORATE PROFITS</strong>&lt;br&gt;8:30 AM&lt;br&gt;<strong>7-YR NOTE AUCTION</strong>&lt;br&gt;BOT (9:00) REDBOOK (8:55)</td>
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<td><strong>LABOR DAY (HOLIDAY)</strong>&lt;br&gt;3:00 PM&lt;br&gt;MARKETS CLOSED</td>
<td><strong>5-YR NOTE AUCTION</strong>&lt;br&gt;BOT (9:00) REDBOOK (8:55)</td>
<td><strong>GOODS &amp; SERVICES BALANCE (BOP)</strong>&lt;br&gt;8:30 AM&lt;br&gt;<strong>GDP</strong>&lt;br&gt;8:30 AM&lt;br&gt;<strong>FACTORY ORDERS</strong>&lt;br&gt;10:00 AM&lt;br&gt;<strong>ADV. TRADE IN INTERNATIONAL GOODS</strong>&lt;br&gt;8:30 AM&lt;br&gt;<strong>CORPORATE PROFITS</strong>&lt;br&gt;8:30 AM&lt;br&gt;<strong>7-YR NOTE AUCTION</strong>&lt;br&gt;BOT (9:00) REDBOOK (8:55)</td>
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<td><strong>LIGHT VEHICLES</strong>&lt;br&gt;SALES MIL (AR) Y&lt;br&gt;JUN 17.134 -0.5&lt;br&gt;JUL 16.823 -0.4&lt;br&gt;AUG</td>
<td><strong>EMPLOY. SITUATION</strong>&lt;br&gt;8:30 AM&lt;br&gt;<strong>GOODS &amp; SERVICES BALANCE (BOP)</strong>&lt;br&gt;8:30 AM&lt;br&gt;<strong>GDP</strong>&lt;br&gt;8:30 AM&lt;br&gt;<strong>FACTORY ORDERS</strong>&lt;br&gt;10:00 AM&lt;br&gt;<strong>ADV. TRADE IN INTERNATIONAL GOODS</strong>&lt;br&gt;8:30 AM&lt;br&gt;<strong>CORPORATE PROFITS</strong>&lt;br&gt;8:30 AM&lt;br&gt;<strong>7-YR NOTE AUCTION</strong>&lt;br&gt;BOT (9:00) REDBOOK (8:55)</td>
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